

Complementary Carbon Storage Incentive Program

The Workgroup consensus position is that this recommended program is an essential complement to a forest management offset program based on a BAU baseline, in order to achieve the goals listed in the Introduction. The Workgroup had lengthy and detailed deliberations on the necessary elements of this program. However, the limits of the timeline available to the Workgroup prevented full discussion of all aspects. As a result, the Workgroup expresses consensus on the need for the program and the features presented in this section, but acknowledges the need for continuing stakeholder-based work to flesh out program details sufficient to guide implementation. Nevertheless, the Workgroup believes the legislature could authorize development of the program based on these recommendations.

Summary of Features

In general, the features of the Complementary Carbon Storage Incentive Program (Program) are as follows:

- Funding for the Program would come from the state and may be linked to the cap-and-trade system recommended by the Western Climate Initiative (WCI).
- Participating landowners would need to meet eligibility criteria.
- Landowners would make commitments to long-term storage of baseline levels of forest and wood product carbon in return for financial incentives proportional to the amount of carbon storage committed to.
- Landowners could receive additional incentives for commitments to increased carbon storage above initial levels, at periodic enrollment windows.
- Landowners would be liable for any loss of carbon storage below commitment levels, and would be required to purchase carbon allowances or credits to pay back to the state.
- Landowners could choose to participate in the carbon offset market, if otherwise qualified, as an alternative to making carbon storage increase commitments within the Program.

Source of Funds

The viability of the Program in meeting the goals of the Workgroup is highly dependent on a credible source of adequate funds. The Workgroup recommends that funds come from or through the state. Although there isn't complete consensus on the most appropriate source of funds, the Workgroup recognizes that one source would be from within the cap-and-trade system proposed by WCI. The final WCI recommendations (September 23, 2008), Section 8.2, states that jurisdictions (such as Washington State) will dedicate a portion of the value from carbon emission allowances to one or more of four specific programs, including promoting sequestration in forestry.

The Workgroup acknowledges that there may be a variety of incentive approaches that don't involve revenue or allowances from the cap-and-trade system, however the Workgroup didn't have time to discuss these.

Eligible Entities

Forest landowners could apply for participation in the Program for all or a portion of their land within Washington State.

Eligibility Threshold

In order to meet the goals of the Program to provide incentives to those who commit to significant carbon storage on their forest lands, but also acknowledge limited funds, the Workgroup recommends that eligibility thresholds be established for Program participation. However, after significant discussions, the Workgroup ran out of time before being able to agree on what the eligibility threshold should be. One difficulty seems to be a lack of reliable statewide data on forest inventory, broken down by region, forest type, and landowner type. The Workgroup recommends that an immediate objective is to improve the usefulness of federal forest inventory data for use in forest carbon management.

Two general approaches were discussed, one using an entity's current or averaged-over-time situation as a reference point, another using a broader "regional mean" or "local standard practice" as a reference point. However, without reliable data as to how application of these concepts would affect the eligibility of specific types of forest landowner, the Workgroup was unable to determine a best method.

Timing and Distribution of Incentives

The workgroup recommends that there be periodic enrollment windows for eligible landowners to apply for and receive incentives under the Program. These windows could correspond in some way with periods in the cap-and-trade system, if that were the source of funds. Eligible landowners could newly enroll in successive windows, or if already enrolled, could enroll additional land or register increased commitments to higher levels of carbon storage.

The Workgroup recommends that incentive payments be awarded to landowners in a manner proportional to the volume of carbon each landowner commits to under the Program, and that the proportional relationship of incentives to commitments be stable over time. The Workgroup was undecided about whether, if incentives are derived from the cap-and-trade system, there should be a "ton-for-ton" correspondence between cap-and-trade emission allowance and stored carbon under the Program, or some other formula, not knowing the quantity of available incentives or eligible forest carbon storage. However, the Workgroup recognized the balance that needs to be struck between objectives of broad participation, on the one hand, and ensuring the incentives are large enough to affect behavior, on the other. In general, the Workgroup recommends that priority attention should be given to landowners who are committing to the highest carbon storage volumes and who aren't able to participate in offset markets.

Payback Provisions

The Workgroup recommends that landowners whose inventory shows a decrease, for whatever reason, from the initial or subsequent commitment amount for which the landowner received incentives, that landowner would be required to purchase carbon

allowances or credits corresponding to their degree of shortfall below their commitment level, and surrender them to the state.

Relation to Offset Market

If a landowner who is participating in the Program can, in addition to their Program commitment, also show an increase in carbon storage above the baseline in use for a carbon offset market, and that landowner hasn't already received incentives within the Program for that additional carbon storage, that landowner has the option of selling that additional carbon storage into the offset market, assuming it otherwise qualifies as an offset. However, that landowner would then be barred from seeking Program incentives for that additional storage.

Monitoring, Verification, and Enforcement

Monitoring and verification of landowner commitments under the Program would be conducted in a manner with similar rigor as for forestry carbon offsets. Similar enforcement provisions would also be put in place.